

ANNUAL REPORT 1998-1999

The following is the Statement of CHFA's Chairman and Executive Director from the 1998-1999 Annual Report, *Pursuing Partnerships for Affordable Housing*. As such, this statement is an Executive Summary of the Annual Report. A printed copy of this Annual Report may be requested at marketing.chfa.ca.gov or by calling **800-789-CHFA** (789-2432).

CHAIRMAN & DIRECTOR'S MESSAGE

Pursuing Partnerships for Affordable Housing is not new to CHFA, for establishing partnerships has always been one of the tools we have used in seeking out ways to maximize our ability to deliver loan products to create affordable housing. However, partnerships, both narrowly and broadly defined, have taken on an added importance as we reflect back on this fiscal year and on the rapidly changing new environment in which we now find ourselves. This environment of change is most notable in the fresh leadership of the new administrations of Governor Gray Davis and State Treasurer Phil Angelides, each with an expressed interest in improving housing. In this transitional year we have been furthering our ability to reach out and create new relationships, not only at the State level, but also with other local housing partners, to essentially build upon all of our talents, strengths, resources and abilities. This is especially important in an increasingly difficult environment for affordable housing, not the least of which is California's continued explosive growth in population, with the resulting increase in demand for housing for working families and a soon to be retiring generation of baby boomers.

Some little known facts about California . . .

- The State is home today to an estimated 33 million people, or about 12% of the U.S. population. It is expected that over the next decade California will attract three million new jobs and add more than six million people.
- Over the next 20 years the population of California will grow by 36%. However, people age 65+ will increase by more than twice the population growth -- 77%.

There are serious indications of a looming housing crisis in California, particularly in affordable housing. Among the indicators are:

- California has 11 of the top 25 least affordable metropolitan areas in the country.
- Housing costs are outpacing incomes for very low- to moderate-income families with over half of the renters and one-third of the homeowners paying more than 30% of their monthly income for housing.
- Economists project that California will need at least 200,000 to 250,000 housing units annually for the next decade. However, in recent years building permits have only been issued for about 100,000 annually.
- The rate of homeownership is 49th among the 50 states, nearly 10 percentage points off the national average.

And if that were not enough . . .

- Federal subsidies are ending for 110,000 apartment units. Seventy-five percent of these units are eligible to move to market rate rents.

- Class size reduction and enrollment increases will create a need for 125,000 to 150,000 teachers over the next five years. California colleges and universities will be unable to "grow" these teachers, so they will have to come from other places, where affordable housing is relatively abundant.
- Not all code enforcement activities, which are designed to assure some basic level of livability, are working -- 35,000 rental units in Los Angeles have toilets that don't flush.
- Southern California employees cite housing costs or long commutes as key reasons for job departure.

Given all this, the challenge is even greater for us. The Agency, in this year of transition, is forging new partnerships to leverage limited housing dollars to achieve the maximum benefit for those who desperately need affordable housing, both to purchase and to rent. We have pushed ourselves in this kind of an environment to create new opportunities and to think "outside the box" for approaches that aren't just status quo or business-as-usual for us, but innovative approaches that can be viable in today's marketplace. Frankly, the marketplace is changing so dramatically that we have to be flexible enough to reinvent ourselves every Monday morning so that we are relevant to the world around us and in a sense becoming more entrepreneurial to be successful in an ever changing world.

We have assembled under the CHFA roof the most talented, innovative and committed professional staff and an incredibly talented Board of Directors, all with an unmatched collective wealth of varied experience in finance, real estate development and marketing. CHFA has also been blessed with new Board members who have added their depth of knowledge and strengths to make the CHFA Board even richer when combined with existing members who have been working in the housing arena for all of their professional careers. We would be remiss if we did not acknowledge the contributions of outgoing Board members Treasurer Matt Fong and his alternate Don Maddy; Business, Transportation and Housing Agency Secretary Dean Dunphy and his alternate Bill Brennan; Office of Planning and Research Director Paul Miner; Department of Finance Director Craig Brown; Department of the Housing and Community Development Director Rich Mallory; and Bijan Kian from the private sector.

CHFA's primary source of capital continues to be tax-exempt private activity bonds (PAB) or as used by CHFA, mortgage revenue bonds. The demand for these scarce funds, simply stated, is such that for every dollar of PAB allocation there is four dollars in applications. For the past four years, CHFA has been playing a leading role (both among state housing finance agencies and with a broad based coalition of housing and economic development interests) in advocacy efforts in Congress to increase the allocation of PABs which California receives. The most recent measure to accomplish this is H.R. 864/S. 459* which, if they become law, will increase California's PAB allocation by over \$800 million. We are hopeful that, along with early support we received from Governor Davis and Treasurer Angelides, our efforts this year in garnering 91% of our Congressional delegation as cosponsors of H.R. 864/S. 459* (resulting in the largest number of cosponsors for any tax bill in this session) will prove to be successful, not only for the benefit of CHFA borrowers, but all those who utilize the much needed capital funding which results.

CHFA is growing and improving. Our business plan set a goal of \$900 million in single family loans for this year. Instead, we exceeded that by making over \$930 million in single family loans. In May, the Board, with votes from the new State Treasurer Angelides and the new Secretary of the Business, Transportation and Housing Agency, Maria Contreras-Sweet, adopted a new \$7.2 billion Five-Year Business Plan, which sets an even higher goal of one billion dollars a year in new single family loans -- this in direct response to a call from Governor Davis to do so. This would result in the highest per year

loan production in CHFA history. The goal for multifamily loan production is \$190 million for the coming fiscal year. The plan also anticipates that the California Housing Loan Insurance Fund (CaHLIF) will create \$387 million in mortgage insurance. The economic impact of just the new construction component of this five-year plan is estimated at 82,000 jobs.

All multifamily project loans are approved by the CHFA Board of Directors. During the year, the Board acted favorably in granting over \$110 million in final commitments for 22 projects with 1,833 units.

The preservation of multifamily affordable housing continues to be a challenge for CHFA. We still have not struck the right mix on this preservation issue. But, the Board and Staff are continually searching for ways to preserve affordable housing, particularly as a result of the 20-year expirations on the Section 8 housing contracts. That's NOT an easy task, since owners have the right to opt out of the program. While on the one hand we are trying to reach out and form new partnerships, on the other, we are trying to retain some of the affordability through partnerships that have existed for the past 20 plus years.

The Agency worked in partnership with the State Legislature, nonprofit developers and the building industry to provide technical assistance in the drafting of Proposition 1A, a school finance reform measure approved by the voters on the November 1998 ballot. The measure calls for a rebate of school fees which can then be used for down payment assistance for those buying a new home, or to assure long-term affordability of selected units in new multifamily developments. CHFA will administer the implementation of this new program which will run over the next four years.

As we approach the year 2000, the bond investment community can be assured, as can the CHFA lenders and borrowers, that CHFA's computer systems have been tested and certified to be Y2K compliant. We have also surveyed CHFA lenders and loan servicers, and at this point, 98% are Y2K compliant. In addition, CHFA has a business continuity plan in place to deal with contingencies out of our control, such as a prolonged power outage.

CHFA bond ratings were upgraded by both the bond rating agencies: Standard & Poor's from A+ to AA- and Moody's from A1 to Aa3.

In October 1998, the National Council of State Housing Agencies at their annual conference, recognized CHFA with two (out of 11) of their *Annual Awards for Program Excellence*. In the category of *Rental Housing: Empowering New Renters*, **Marin City USA** received the Program Excellence Award, and the CHFA Special Needs Loan Program received the Program Excellence Award for *Special Housing Needs* category. Our Lender Access System received a Significant Achievement Award (one of 14) for *Management Innovation*. No other state received multiple awards for Program Excellence.

We will never be complacent or accept that housing is too difficult in California for us. To that end, CHFA, along with other housing providers, believe that the best solution to produce more affordable housing is to maximize and leverage scarce public sector resources and to "incentivize" the private sector. In doing so, we will continue in our quest to seek out new opportunities by ***Pursuing Partnerships for Affordable Housing***.

Clark E. Wallace
Chairman of the Board

Theresa A. Parker
Executive Director

*H.R. 864/S. 459 - these bills were included in the tax bill which has been vetoed by President Clinton. We continue our efforts with the California Congressional delegation urging them to include the provision of these bills and any compromise tax bill adopted.

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